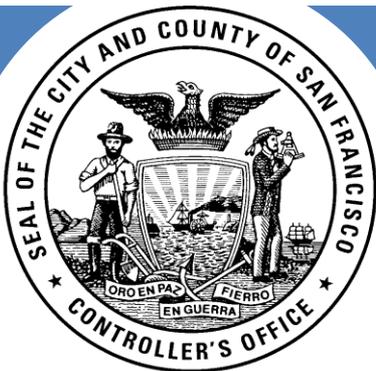


Refuse Rates Administrator's Report and Proposed Rate Order



CITY & COUNTY OF SAN FRANCISCO

Office of the Controller, Office of the Refuse
Rates Administrator

June 26, 2023

Refuse Rates Administrator Report

- Prop F Written Objection and Comment Analysis
- Prop 218 Protests
- Jurisdiction Comparisons: Future Analyses
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Proposed Rate Order

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- Automatic COLA for subsequent rate years
- Zero Waste Capital Reserve
- Reporting Requirements
- Summary of Accounts

Recology will also provide detail on Weekend Cleanup cost details.
Recology will provide update on Organics Pre-Processing Proposal

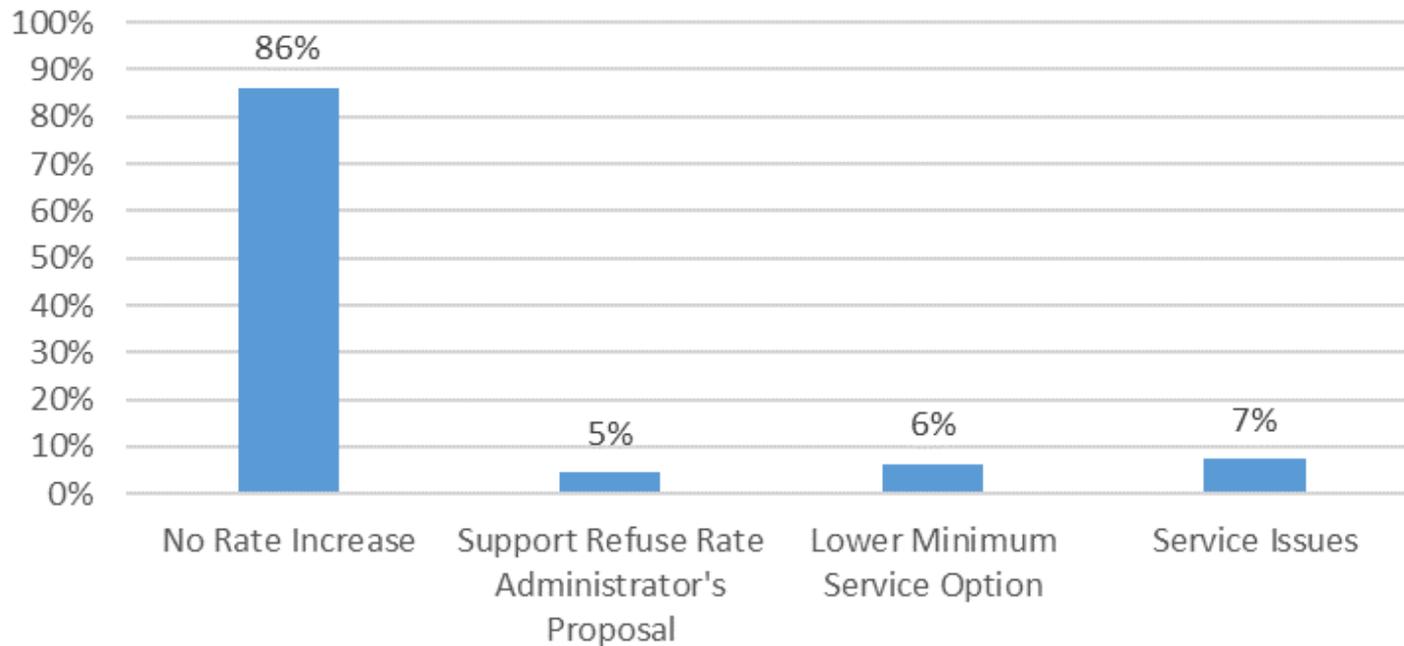
Refuse Rates Administrator's Report

Prop F Written Objection and Comment

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As of June 16, 2023, 109 ratepayers have filed written comment or objection.

Written Objections and Comments: Major Themes (109 Ratepayers)

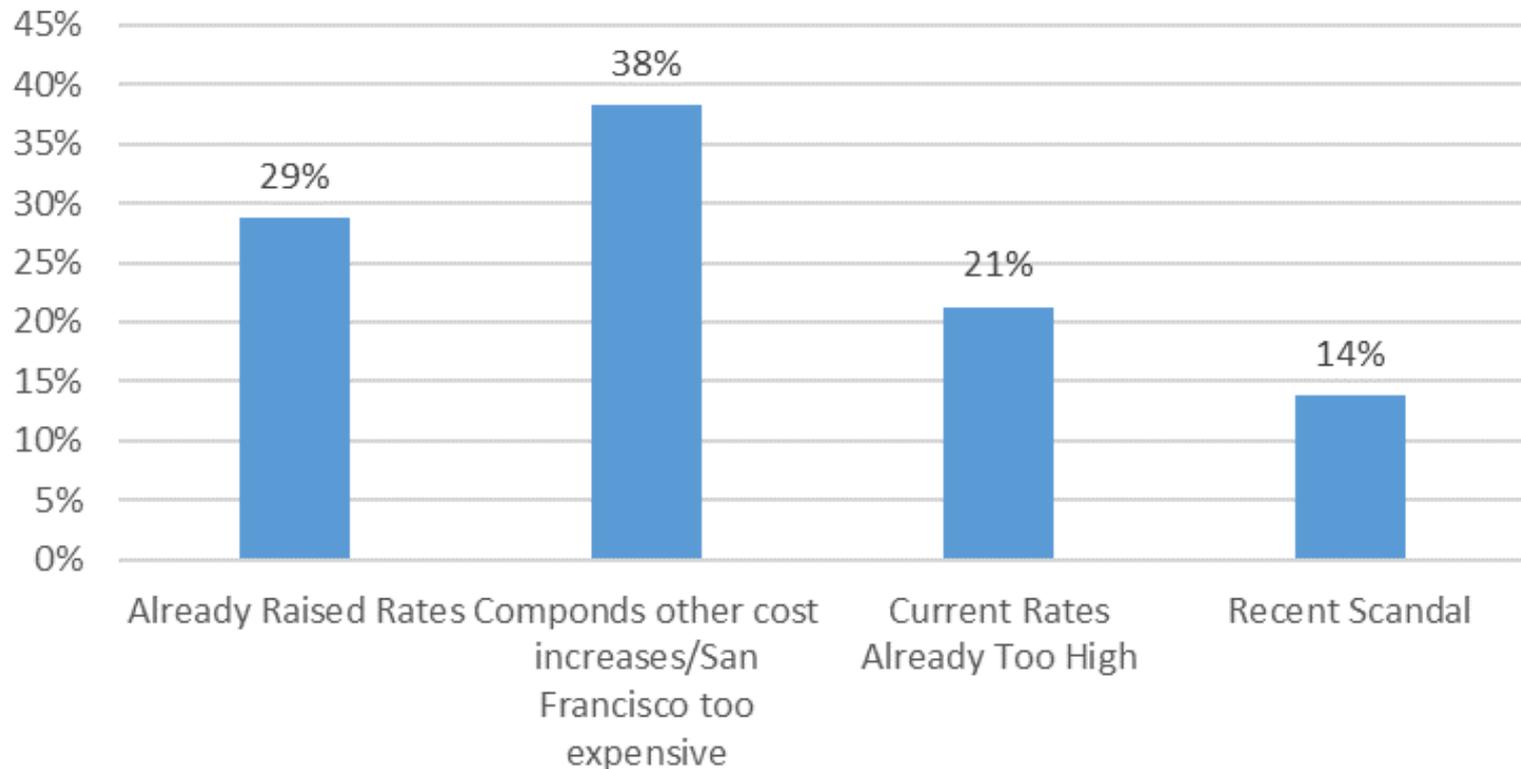


Prop F Written Objection and Comment

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Of the respondents who objected to a rate increase, the most common reason cited was that a rate increase compounds other costs increases, making San Francisco a difficult place to live.

Reasons for No Rate Increase (94 Ratepayers)



Prop F Written Objection and Comment

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“There is a continuous increase on rates in every aspect of the economy. Food, gas, interest rates and it’s hurting everyone’s pockets. Please stop this increase which will only impact families who are already struggling.”

“These increases are ridiculous and the City of SF needs to put a stop to them. These are increases on top of an over 8.86% increase last year. Everyone in the City is struggling and Recology is extorting us all because they have a monopoly!”

“The cost of living in San Francisco is already out of control and I object to this increase in rates.”

“I am sure that you need not be reminded of the recent Recology increase of 8.86% that went into effect January 2023. Any proposed increases in rates "COLA" or otherwise is and/or cannot be justified under any circumstances. I advise against any increase in rates.”

“While rising costs are expected, 6.15% over 2 years is unreasonable. If the company is able to go another two years without another corruption scandal, I would be in favor of resetting rates to reflect costs.”

- Proposition 218 requires notification of proposed changes to rates for service to be sent 45 days prior to a scheduled public hearing.
- Prop 218 notices were sent on June 1, 2023. Prop 218 hearing will occur on July 24th.
- As of June 21, we have received 141 Prop 218 protests.
- No rate changes may be imposed if a “majority protest” exists. 73,287 protests are required for a “majority protest.”

Jurisdiction Comparisons: Future Analyses
HF&H Consultants

Next Steps

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| Date | Event | Description |
|------------------|---------------------------|--|
| June 20th | Rate Order Issued | Refuse Rates Administrator's Written Proposed Rate Order is issued. |
| June 26th | Refuse Rate Board Hearing | Hear Refuse Rates Administrator's Proposed Rate Order and to address outstanding items from previous hearing. |
| July 24th | Refuse Rate Board Hearing | Hear Prop F Written Objections, and Prop 218 Protests. Hear proposed rate order, potential action to adopt rate order. |
| July 28th | Refuse Rate Board Hearing | If Needed |

Rate Order Proposal

Rate Adjustment Summary

| Rate Change | Rate Year 2024 | | Rate Year 2025 | |
|---------------------------------------|-------------------|------------------------------------|-------------------|------------------------------------|
| | Recology Proposal | Refuse Rate Administrator Proposal | Recology Proposal | Refuse Rate Administrator Proposal |
| Collections Rate | | | | |
| Annual % Change Proposed | 3.90% | 0.00% | 2.17% | 3.92% |
| Cumulative % Change from Current Year | 3.90% | 0.00% | 6.15% | 3.92% |

Rate Order New Investments

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The Refuse Rates Administrator’s proposal maintains costs to ratepayers in the first year while ensuring current collections service levels are maintained while enhancing other certain services.

| Goal | Investment |
|--|--|
| Maintaining Service Levels | Estimated 3.4% increase in Rate Year 2024 and an additional 1% in Rate Year 2025, which accounts for negotiated salaries and benefits and growth in other costs to operations |
| Enhancing Service Levels | Abandoned Materials Collections: 2 new drivers and an additional zone to increase capacity by 20% |
| | Public Receptacles Collections: 2 new drivers and 2 additional routes. Increases capacity to allow for double historical levels of pickup |
| | Enhancing Operations and Administration: 2 Relief Drivers to ensure adequate and regular collection; 2 Cardboard Pickup Drivers; additional supervisors and managers to support new drivers, improve safety and efficiency in collections and maintenance; analytical support to address new reporting requirements. |
| Ensuring Safety | 3 additional drivers to establish two-person routes as well as new supervisor for increased supervision. |
| Improving Contamination and Diversion | Organics Pre-processing Investment Trash Processing Pilot |
| Building In Flexibility | Programmatic Reserve to allow for City requests beyond Rate Order |
| Finding Cost Savings | Savings would not impact service delivery. |
| Improving Reporting | Increased reporting requirements for greater transparency and tracking of operational and financial performance. |

Service Level Agreement Change

- Refuse Rates Administrator reviewed historical data on calls and Recology's ability to meet service needs at various call levels.
- At current staffing levels, Recology's ability to meet service needs on-time is approximately 100,000 calls.
- Status quo is coverage of 49 square miles with 5 zones. Enhancement is coverage of 49 square miles with 6 zones.
- With an additional zone and 2 new FTE, the Refuse Rates Administrator has estimated that this investment should increase capacity by 20%.
- In consultation with Recology, we have agreed to increase the initial request for a cap of 113,282 (310 per day) to 120,000 (329 per day). This number is inclusive of both 311 requests and DPW requests.

Service Level Agreement Insufficient to Meet Requests

- Refuse Rates Administrator reviewed historical data on requests for public receptacle pickup outside of pickups on normal routes.
- Current cap in the SLA is 43,800 requests (120 per day).
- Projected 2023 figures are related to the new sensors. If current trend continues, current cap in SLA would be well below the number of requests requiring.

| Year | 311 Requests | Daily Average |
|----------------|--------------|---------------|
| 2019 | 12,037 | 33 |
| 2020 | 19,088 | 52 |
| 2021 | 17,904 | 49 |
| 2022 | 22,904 | 63 |
| 2023 projected | 87,825 | 241 |

Contamination Enhancement Alternative

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| Contamination Enhancement | Rate Year 2024 | | | Rate Year 2025 | | |
|---------------------------|-------------------|-------------------------------------|----------------------|-------------------|-------------------------------------|----------------------|
| | Recology Proposal | Refuse Rates Administrator Proposal | Alternative Proposal | Recology Proposal | Refuse Rates Administrator Proposal | Alternative Proposal |
| Expenditure | | | | | | |
| Waste Zero Specialists | \$0.29 | \$0.00 | \$0.15 | \$0.30 | \$0.00 | \$0.15 |
| Outreach | \$0.10 | \$0.00 | \$0.04 | \$0.10 | \$0.00 | \$0.04 |
| Cameras | \$0.24 | \$0.00 | \$0.02 | \$0.00 | \$0.00 | \$0.02 |
| Total | \$0.64 | \$0.00 | \$0.20 | \$0.40 | \$0.00 | \$0.21 |
| Revenue | | | | | | |
| Contamination Fee | \$5.00 | \$0.00 | \$0.20 | \$5.00 | \$0.00 | \$0.20 |
| Total | \$5.00 | \$0.00 | \$0.20 | \$5.00 | \$0.00 | \$0.20 |

- **Recology's Proposal:** 2 Waste Zero Specialists (in addition to 6 existing Waste Zero Specialists), Outreach Investments, and 38 Cameras. Assumes \$5 million in revenue.
- **Refuse Rates Administrator:** Includes no new investments and no assumed additional revenue.
- **Alternative Proposal:** 1 Waste Zero Specialists, Outreach Investments, and 6 Cameras. Assumes \$205k in revenue. (\$1k less than RRA proposal in RY2024 and \$5k more than RRA proposal in RY2025).

| Pension Funding Scenarios | Annual Contribution | SF Recology Companies Share of Contribution | Total Contribution (FY24-FY28) | SF Recology Companies Share of Total |
|----------------------------|---------------------|---|--------------------------------|--------------------------------------|
| 3-Year Fully Funded Target | \$16.90 | \$15.90 | \$50.70 | \$47.74 |
| 5-Year Fully Funded Target | \$12.00 | \$11.30 | \$60.00 | \$56.50 |

- 3-Year Fully Funded Target would increase annual costs to ratepayers by \$4.6 million from the Refuse Rates Administrator’s proposal. This would reduce total contribution over the next 5 years by an estimated \$8.8 million.
- Refuse Rates Administrator estimates this to be approximately 1.3% increase in rates over the Refuse Rates Administrator’s proposal.
- Refuse Rates Administrator recommends the 5-Year Fully Funded Target:
 - Provides cost-savings during Rate Years 2024 and 2025.
 - This will adjust ratepayer-funded annual contributions to be aligned with the annual target normal costs as reported by Recology in IRS Form 5500 from plan year ending 9/1/2021.

Corporate Allocations

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- Corporate Allocations: Costs allocated to the three Recology subsidiaries in San Francisco from Recology's corporate entity.
- Recology uses a revenue-based allocation, which the Refuse Rates Administrator believes is not to the benefit of San Francisco ratepayers.
- Line-item detail for corporate allocation costs including equivalent FTEs spending time on Recology San Francisco Companies' work and why additional overhead needed over local administrative support. Actual Corporate Allocation charges should not exceed incurred eligible cost, for services provided to SF Recology Companies.
- San Francisco has higher rates than other jurisdictions, which should not be a factor in the allocation.
- Other allocation methods would have higher correlation to costs, such as tonnage-based, by account, or based on number of routes (which is how overhead costs are allocated by Recology in Pacifica).
- Refuse Rates Administrator is recommending a 5% cut in Corporate Allocations at this time.

Programmatic Reserve

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- **Purpose:** This reserve is intended to provide flexibility to the City to make incidental public purpose requests for additional services beyond the baseline service levels already funded and provided under the Rate Order.
- **Funding:** Amount is equivalent to 5% of Corporate Allocations costs as proposed in Recology's Rate Change Request submission. \$783K in Rate Year 2024 and \$807K in Rate Year 2025
- **Withdrawal:** Upon request of service from a City department, Recology will estimate the cost and demonstrate why this service is beyond baseline service levels, for approval by the Refuse Rates Administrator.
- **Unused Balance:** Any unused balance in Rate Year 2024 will roll over into Rate Year 2025. Unused balances beyond 2025 may roll over into the subsequent rate year or used to lower rates for subsequent rate year(s).

Balancing Account

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| \$ 100.00 Base Case, \$100M RY#1 (Scale Factor=1.00), RY#2 Incl. RRA Proposed Change | | | | OR Eligible Expenses Stay Fixed to Isolate Revenue Change Impact Only | | | | | | | | |
|--|--|----------------|--|---|-----------|-----------|-----------|-------------------|-----------|-----------|-----------|------------|
| 1.00 Factor to Scale to Final Estimated RY2024 Revenue Subject to Rate Setting | | | | Revenue Surplus | | | | Revenue Shortfall | | | | |
| | | | | 10.0% | 7.50% | 5.0% | 2.5% | Base Case | -2.5% | -5.0% | -7.5% | -10.0% |
| Rate Year 1 | | | | | | | | | | | | |
| Revenue Subject to Ratesetting | | A | | \$ 110.00 | \$ 107.50 | \$ 105.00 | \$ 102.50 | \$ 100.00 | \$ 97.50 | \$ 95.00 | \$ 92.50 | \$ 90.00 |
| Operating Ratio (OR) Eligible Expenses | | B | | \$ 91.00 | \$ 91.00 | \$ 91.00 | \$ 91.00 | \$ 91.00 | \$ 91.00 | \$ 91.00 | \$ 91.00 | \$ 91.00 |
| Net OR Profit | | C=A-B | | \$ 19.00 | \$ 16.50 | \$ 14.00 | \$ 11.50 | \$ 9.00 | \$ 6.50 | \$ 4.00 | \$ 1.50 | \$ (1.00) |
| Net OR Profitability Margin | | C/B | | 20.88% | 18.13% | 15.38% | 12.64% | 9.89% | 7.14% | 4.40% | 1.65% | -1.10% |
| Balancing Account Adjustment, i.e., Recology Owes SF Ratepayers/(SF Ratepayers Owe Recology) | | | | | | | | | | | | |
| Net OR Profitability Margin Over/(Under) the Allowed 9.89% | | D1=C-CBaseCase | | \$ 10.00 | \$ 7.50 | \$ 5.00 | \$ 2.50 | \$ - | \$ (2.50) | \$ (5.00) | \$ (7.50) | \$ (10.00) |
| 50% of Net OR Profitability Margin Over/(Under) the Allowed 9.89% | | D2=D1*50% | | \$ 5.00 | \$ 3.75 | \$ 2.50 | \$ 1.25 | \$ - | \$ (1.25) | \$ (2.50) | \$ (3.75) | \$ (5.00) |
| Rate Year #1, BA Starting Balance = \$0 | | E | | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Rate Year #1, BA Ending Balance | | F=D2+E | | \$ 5.00 | \$ 3.75 | \$ 2.50 | \$ 1.25 | \$ - | \$ (1.25) | \$ (2.50) | \$ (3.75) | \$ (5.00) |
| Subsequent Year's Rate Adjustment Cap (% of Revenue Subject to Ratesetting) - To Rebalance BA toward Net Zero over Time | | | | | | | | | | | | |
| If BA>0, Drawdown from BA, to Offset Rate Increase, Cap @2.5% | | G1=2.5%*A | | \$ (2.75) | \$ (2.69) | \$ (2.63) | \$ (2.56) | \$ (2.50) | | | | |
| If BA<0, Payback Due to Replenish BA, Rate Increase Cap @2.5% | | G2=2.5%*A | | | | | | \$ 2.50 | \$ 2.44 | \$ 2.38 | \$ 2.31 | \$ 2.25 |

- Timing of balancing account deposit for Rate Year 2024 would happen in Rate Year 2026.
- Use of balance from Rate Year 2024 adjustment can be used between Rate Year 2026 and Rate Year 2030.

Balancing Account

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| | | | Revenues Stay Fixed to Isolate OR Eligible Expenses Impact Only | | | | | | | | |
|--|---------------|--|---|------------------|------------------|------------------|---------------------|----------------|----------------|----------------|----------------|
| 1.00 Factor to Scale to Final Estimated RY2024 Revenue Subject to Rate Setting | | | Expenditure Shortfalls** | | | | Expenditure Savings | | | | |
| | | | 10.0% | 7.50% | 5.0% | 2.5% | Base Case | -2.5% | -5.0% | -7.5% | -10.0% |
| Rate Year 1 | | | | | | | | | | | |
| Revenue Subject to Ratesetting | A | | \$ 100.00 | \$ 100.00 | \$ 100.00 | \$ 100.00 | \$ 100.00 | \$ 100.00 | \$ 100.00 | \$ 100.00 | \$ 100.00 |
| Operating Ratio (OR) Eligible Expenses | B | | \$ 100.10 | \$ 97.83 | \$ 95.55 | \$ 93.28 | \$ 91.00 | \$ 88.73 | \$ 86.45 | \$ 84.18 | \$ 81.90 |
| Net OR Profit | C=A-B | | \$ (0.10) | \$ 2.18 | \$ 4.45 | \$ 6.73 | \$ 9.00 | \$ 11.28 | \$ 13.55 | \$ 15.83 | \$ 18.10 |
| Net OR Profitability Margin | C/B | | -0.10% | 2.22% | 4.66% | 7.21% | 9.89% | 12.71% | 15.67% | 18.80% | 22.10% |
| Balancing Account Adjustment, i.e., Recology Owes SF Ratepayers/(SF Ratepayers Owe Recology | | | | | | | | | | | |
| | D1=C- | | | | | | | | | | |
| Net OR Profitability Margin Over/(Under) the Allowed 9.89% | CBaseCase | | \$ (9.10) | \$ (6.83) | \$ (4.55) | \$ (2.27) | \$ - | \$ 2.28 | \$ 4.55 | \$ 6.83 | \$ 9.10 |
| 50% of Net OR Profitability Margin Over/(Under) the Allowed 9.89% | D2=D1*50% | | \$ (4.55) | \$ (3.41) | \$ (2.28) | \$ (1.14) | \$ - | \$ 1.14 | \$ 2.28 | \$ 3.41 | \$ 4.55 |
| Rate Year #1, BA Starting Balance = \$0 | E | | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Rate Year #1, BA Ending Balance | F=D2+E | | \$ (4.55) | \$ (3.41) | \$ (2.28) | \$ (1.14) | \$ - | \$ 1.14 | \$ 2.28 | \$ 3.41 | \$ 4.55 |
| Subsequent Year's Rate Adjustment Cap (% of Revenue Subject to Ratesetting) - To Rebalance BA toward Net Zero over Time | | | | | | | | | | | |
| If BA>0, Drawdown from BA, to Offset Rate Increase, Cap @2.5% | G1=2.5%*A | | \$ (2.50) | \$ (2.50) | \$ (2.50) | \$ (2.50) | \$ (2.50) | | | | |
| If BA<0, Payback Due to Replenish BA, Rate Increase Cap @2.5% | G2=2.5%*A | | | | | | \$ 2.50 | \$ 2.50 | \$ 2.50 | \$ 2.50 | \$ 2.50 |

- Timing of balancing account deposit for Rate Year 2024 would happen in Rate Year 2026.
- Use of balance from Rate Year 2024 adjustment can be used between Rate Year 2026 and Rate Year 2030.

Recology Proposal

- Allows for automatic COLA adjustment if no new rates are set beyond Rate Year 2025.
- Methodology is same as Rate Year 2017 COLA, which uses 8 weighted COLA factors.
- Under this methodology, Recology received an 8.86% increase January 2023. If no rate order is set for Rate Year 2024, then Recology is estimated to receive an addition 1.75% adjustment.

Refuse Rates Administrator's Rate Order

- No Automatic COLA adjustment.

Alternative Proposal for Refuse Rate Board Consideration

- ***Rate-Setting Process Delay Trigger:*** If the next rate-setting process has not been initiated by February 1, 2025, the Refuse Rates Administrator shall request a convening with the Rate Board to consider the application of an automatic COLA adjustment, with a methodology including but not limited to the considerations below, effective no earlier than October 1, 2025 following the required noticing period.
- ***Considerations:*** Considerations will include Balancing Account and Reserve Balances, publicly recorded CPI and PPI indices, serving as a potential cap, along with the associated component weightings as reported by Recology in same form and format under previous rate order.
- Any COLA requirement will require a new Prop 218 Notice and hearing. This can be done any time before the next rate cycle.

In-lieu of a Zero Waste Incentive Account, an option for consideration would be to begin funding a Zero Waste Capital Reserve that could support future capital infrastructure investments, prioritizing our Zero Waste Goals.

Initial Funding: 1% of net revenue (approximately \$3.6 million) in Rate Year 2024. Reduce rates in Rate Year 2025.

Timing: The rate increase to fund this Zero Waste Capital Reserve will become effective no earlier than January 1, 2024.

Use: Capital investments as determined in the next rate cycle. Reserve fund may also be used for rate stabilization.

- **Financial Reports:** Annual Audited Financials, Pension Report
- **Rate Reports:** Quarterly and Annual Rate Reports
- **Operations Reports:** Monthly Route Collection Reports, Report by Line of Business
- **Customer Reports:** Customer Communication Tracking, Noncompliant Accounts, Customer Outreach for Source separation, Special Event Service, etc.
- **Processing and Disposal Reports:** Compost procurement and distribution, recyclables, weight scale records
- **Program Reports:** Household Hazardous Waste, Abandoned Materials, Public Receptacles, metrics for all 26 programs, contamination report, etc.
- **Delinquent Account Reports:** reports received by Public Health for delinquent accounts.

1. **Impound Account:** Funds selected City services.
 - **Allowable Use:** Program has direct relationship to residential ratepayer and benefits residential ratepayer in a manner that is different from how the program may benefit the public at large.
 - **Funding:** Funded through rates (proposed \$24.2M in RY24 and \$24.6 in RY25)
 - **Balance:** Projected at \$23.8M. Proposed use of \$15M for new trash cans, \$1.08M for Refuse Rates Administration, \$2-3M for work supporting next rate cycle, \$1M for Seismic Study, \$500K for Trash Processing Pilot. Estimated net after proposals of \$2.4M.
2. **Zero Waste Incentive Account:** Financial Incentive account that Recology can draw down on if certain targets are met. Under the Refuse Rates Administrator's proposal, this fund will wind down.
 - **Allowable Use:** Unearned are returned to ratepayers, however, Tier 3 and Tier 4 funds can be used with approval from Environment Department.
 - **Funding:** Funded through rates at 2% profit. Approximately \$8.25M.
3. **Balancing Account 2023:** Remaining balance from \$25M balancing account created through December 2022 Settlement agreement. This fund will wind down.
 - **Allowable Use:** Balance will be used to lower rates between RY25 and RY29.
 - **Balance:** As of March 31, 2023, balance is \$4.95M

4. **Landfill Agreement Special Reserve:** Reimburse Recology SF for landfill disposal costs it incurs but cannot fully recover through the rate-setting process.
 - **Allowable Use:** Costs include certain fee and costs relating to performance of Agreement.
 - **Balance:** As of June 30, 2022, balance is \$9.9M.

Refuse Rates Administrator Proposed Accounts

1. **Programmatic Reserve:** Reimburses Recology for City-initiated requests beyond those established in this rate order.
 - **Allowable Use:** City requests outside of Rate Order approved by Refuse Rates Administrator.
 - **Funding:** Funded through rates (\$783K in RY24 and \$807K in RY25)
2. **Balancing Account RY24 and RY25:** Ensures any surplus are used to offset subsequent year costs and shortfalls are smoothed over time.
 - **Allowable Use:** Any balance, positive or negative, can be used to adjust rates in subsequent years. Balance can be spread across multiple years, no more than 5 years.
 - **Balance:** Beginning balance of \$0.